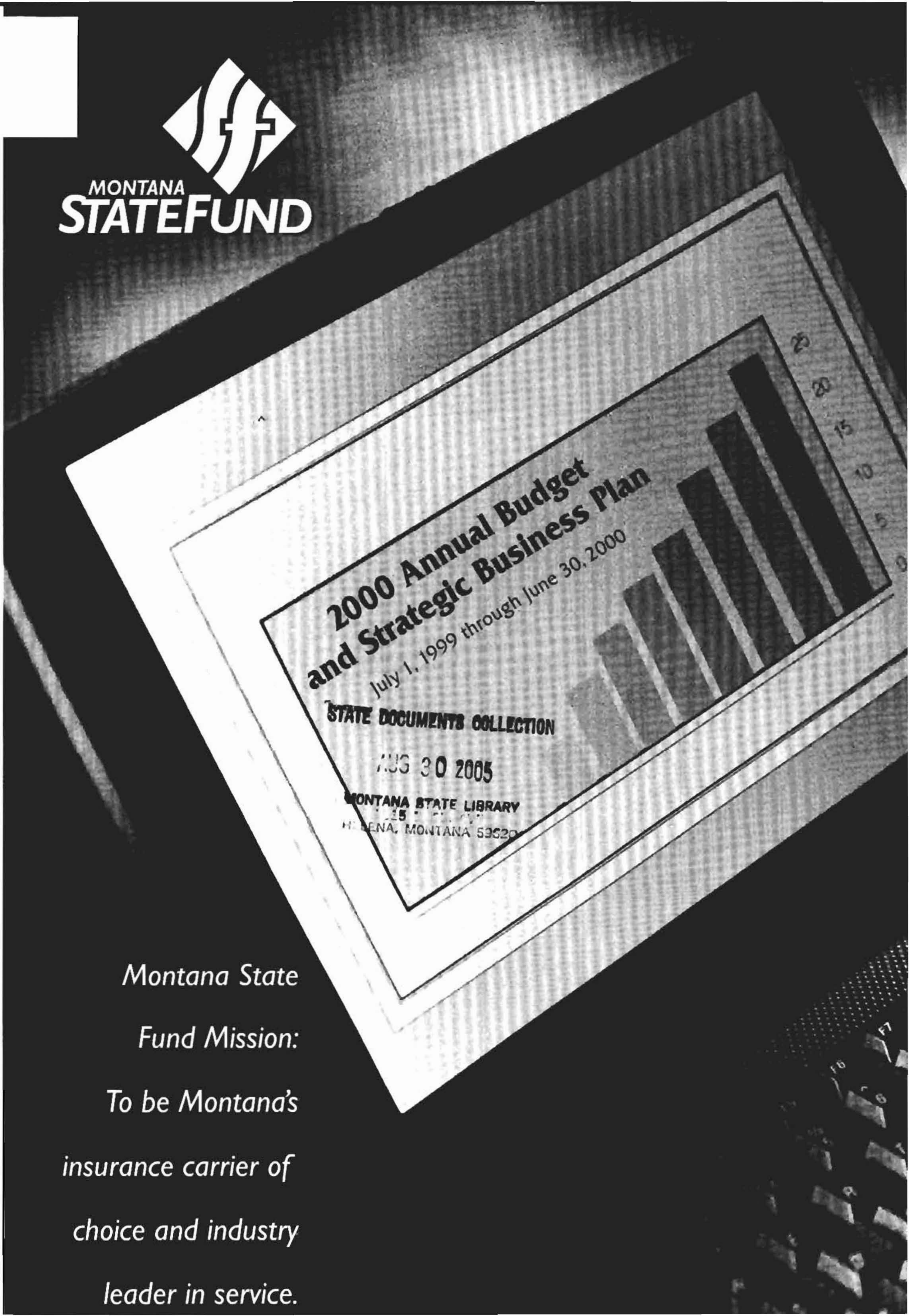
MONTANA
STATEFUND



Montana State Fund Mission: To be Montana's insurance carrier of choice and industry leader in service.

We're proud of our accomplishments. . .

- Reduced premium rates by 42% in the past five years
- Returned $10 million dividend to policyholders in 1999
- Established partnership with local insurance agents in 1997
- Recovered fraud savings of over $9 million since 1993
- Created Quality Care Montana and Preferred Provider programs for superior claims management
- Implemented successful Early Return to Work program
- Offered Employers Liability Coverage in 1998
- Offered Other States Coverage in 1999
- Created five major group and association plans
- Established Customer Service Unit in 1995
- Achieved policyholder satisfaction rating of over 90%
- Achieved injured worker satisfaction rating of over 80%
- Implemented innovative pay for performance program for employees
- Launched major new computer systems to enhance customer service
- Contributed significantly to Old Fund Liability and recommended Old Fund Liability Tax end
- Eliminated New Fund deficit and achieved strong financial performance and adequate surplus throughout the 1990s
- Transformed State Fund to a customer service focused organization

and we're planning more!

On behalf of the board, management, and staff of Montana State Fund, I am pleased to submit our *Strategic Business Plan* for the fiscal year 2000. This document defines our core strategies and our strategic goals and objectives for the next fiscal year and beyond.

The State Fund has engaged in an annual strategic business planning process since 1994. We have found this process to be an effective management tool keeping us focused on our primary purpose, responsibilities and goals. In addition, our process allows us to assess and adjust the State Fund's direction in response to our changing environment.

The result of our continuing strategic planning process has been encouraging. Since we began strategic planning in 1994, State Fund has enjoyed one of the most productive periods in its history. The accomplishments listed earlier in this report are just a few of the many successes achieved through strategic planning.

In preparing our fiscal year 2000 plan, we have focused on the critical connection between strategic planning, strategic thinking, and strategic management: we have consciously used our strategic planning process to lay a solid foundation for strategic thinking and management. This is based upon our recognition that the environment we exist in and the markets we address are highly changeable, often in unpredictable ways. This strategic plan stresses the importance of positioning the organization so that we can make the decisions that will ensure our ability to successfully respond to the changing needs and demands of our customers.

This plan also recognizes that to successfully respond to these changes, the State Fund needs to foster a high-performance environment that enables and encourages our management and staff to routinely engage in effective strategic thinking and management. Without this transformation, we believe it will be increasingly difficult to successfully achieve our mission.

I want to commend our senior management and staff for contributing the time and effort necessary to complete our planning.

-- Carl Swanson
President and Chief Executive Officer

Table of Contents

Key Concepts and Definitions

Strategic. In organizational management, strategy means responding to a dynamic and competitive environment in pursuit of the organization's mission. Thinking strategically means being informed and consciously responding to this dynamic environment.

Planning. Strategic planning involves setting goals, choosing a desired future, and charting a course toward the future.

Fundamental. Strategic planning implies some decisions and actions are more important than others. The most important decisions recognize what an organization is and why it exists; the most important actions recognize the purpose of an organization. Strategic thinking is deciding on and completing the most important actions.

Disciplined. Strategic planning is a disciplined process. Discipline highlights the relationship between the different steps in strategic planning. A mission is defined based on the environment and actions are determined by assessing strengths, weaknesses, opportunities, and threats. Questions are raised to examine experience and test assumptions; gather and make use of information about the present; and to anticipate the future working environment.

Decision-Making. To answer questions raised in the structured planning process, choices must be made. Strategic planning is based on decision making. The plan is a set of decisions about what to do, how to do it, and why to do it.

Strategic Management. Strategic planning implies day-to-day and month-to-month managing that focuses on the most important decisions and actions. This requires long-term vision, perspective, and priorities that result from a strategic plan. Strategic planning assumes the environment is always changing and as a result, strategic management requires ongoing assessment of current plans in light of long term priorities.

Mission, Vision, and Guiding Principles

Mission

The mission of State Fund is to be Montana's insurance carrier of choice and industry leader in service.

Vision

The vision of the State Fund is to be *viewed* as the insurance carrier of choice in Montana. To achieve this vision, the State Fund will:

- Make available to all Montana business operations a stable market for workers' compensation, occupational disease coverage, and employers' liability coverage.
- Foster and support a competitive insurance market in Montana.
- Create customer loyalty through providing superior service to our policyholders, injured workers, and insurance producers, and enhance and maintain a partnership with stakeholders in the true spirit of cooperation.
- Deliver high quality insurance products to Montana business operations at the lowest possible cost consistent with sound insurance standards.
- Maintain financial strength and stability.
- Foster a customer-focused, team-oriented, high performance culture that rewards, satisfies, and challenges our employees.
- Enter into strategic partnerships when they can improve service and products to our customers.

Guiding Principles

The management and staff of State Fund adhere to the following principles in delivering our mission:

Integrity, Ethics and Professionalism

- Support a strong character of integrity, ethical conduct, and consummate professionalism.

Customer Focus

- Maintain a strong customer focus that is responsive to customer needs and encourages two-way communication.

Financial Strength and Stability

- Employ accepted industry standards to maintain a strong financial position to ensure long-term stability and financial solvency based on actuarially sound rates and reserves.

High Quality Services and Products

- Develop and market high quality competitive insurance services and products to ensure long-term viability.

Performance-Driven Organizational Culture and Teamwork

- Create and support a performance-driven organizational culture conducive to the development, satisfaction, and growth of our employees. Continuously improve the work environment based on professionalism and teamwork.

Effective Communication

- Foster an environment conducive to effective and clear communication both inside and outside the organization.

Organizational History and Profile

The Montana workers' compensation system was originally established in 1915. Montana State Fund is a workers' compensation insurance carrier established by the State of Montana. Since 1915, the State Fund has assumed several different forms. Its current structure is the result of a system reorganization in 1990 when the workers' compensation regulatory functions were established in the Department of Labor and Industry and a separate State Fund governed by a Board of Directors was created. Additional changes were legislated in 1993, resulting in the current State Fund.

Today, the State Fund is a self-supporting, nonprofit, workers' compensation insurance carrier. Its statutory purpose is to be a competitive insurance carrier and provide an available market to all employers for workers' compensation insurance. As such, the State Fund guarantees the availability of coverage for a majority of the employers in the State.

The organization is governed by a seven-member board of directors appointed by the Governor and a chief executive officer appointed by the board. The State Fund functions very much like a private insurance carrier in a competitive marketplace.

State Fund is a leading force in the Montana workers' compensation insurance industry and strives to provide the best value and service to Montana employers and their employees. The State Fund is an active partner with the employers it insures and the injured workers it serves to deliver high quality workers' compensation products and services. It strives to promote competition, lower prices, improve service, and enhance value. It has been successful in reducing premium rates, helping achieve safer work places, and establishing a well-managed insurance organization.

Financial Projections

Montana State Fund's long held commitment to financial soundness and stability continues to be at the forefront. As of June 30, 1998, Montana State Fund's surplus was $142.2 million. Current projections reflect an approximate surplus level as of June 30, 1999 of $149.6 million. During fiscal year 1999, State Fund paid policyholders $10 million in dividends (14% of fiscal year 1999 premium). We have paid the final $10 million transfer to the State's General Fund as required in law. The following exhibit reflects future projections for State Fund's financial position. Projected surplus continues to be strong to assure our financial strength. The projections include paying dividends in future years at a rate of approximately 14% of premium, the same as fiscal year 1999. However, dividends cannot be guaranteed and depend on achieving expected results.

Because of this continuing growth, State Fund was able to lower average premium rates for the fifth straight year. Since July 1, 1995, the State Fund has reduced rates approximately 42%.

In addition to the policyholder dividends mentioned above, another milestone was achieved during fiscal year 1999. The State Fund Board of Directors was able to recommend the end of the Old Fund Liability Tax (OFLT) effective January 1, 1999. Analyses provided by our consulting actuary, Tillinghast-Towers Perrin, showed the Old Fund's current assets plus future investment income are expected to be sufficient to satisfy the remaining claim liabilities as they come due. The Old Fund is expected have a present value surplus of about $18 million at June 30, 1999, compared to a deficit of $70.5 million only one year earlier.

As with any forecast of future events, there are risks inherent in creating our financial projections. Risks with the financial forecast include but are not limited to the following:

- Investment income forecasts may vary based on fluctuations in investment markets.
- Any catastrophic event could cause a one-time variation to the projections. State Fund uses reinsurance to reduce the risk in the event of such catastrophic losses.
- A return of inflation or economic growth or recession would alter the revenue and expense forecasts.
- Claim cost may be higher or lower than forecasted.

State Fund's surplus remains in Montana and has been put to work for Montana. We will be entering Fiscal Year 2000 with an average 2% premium rate reduction from Fiscal Year 1999 rates. Our business plan outlines goals and objectives aimed at providing the best possible support and services to Montana employers and injured workers. As a result, the financial forecast for State Fund and all our stakeholders continues to be strong into the beginning of the next century.

Projected Results of Operations

GAAP Basis

Income Statement	Actual	Estimate					
(thousands of dollars)	1998	1999	2000	2001	2002	2003	2004
Premium Income	$76,421	$69,510	$65,416	$65,668	$67,326	$69,027	$70,770
Investment & Other Income	45,136	27,485	29,641	30,045	30,481	31,015	32,183
Claim Expenses (including reserve adjustments)	48,852	50,754	61,431	62,245	64,759	66,377	68,037
Loss Adjustment Expenses (including reserve adjustments)	9,805	10,293	13,106	11,062	11,710	12,104	12,450
Underwriting Expenses (GAAP)	9,025	8,565	9,082	9,408	9,846	10,268	10,544
Transfer to General Fund*	10,000	10,000					
Policyholder Dividend	0	10,000	9,413	9,450	9,688	9,933	10,184
Net Income	$43,875	$7,383	$2,025	$3,548	$1,804	$1,360	$1,738
Surplus at June 30	$142,247	$149,630	$151,655	$155,203	$157,007	$158,367	$160,105

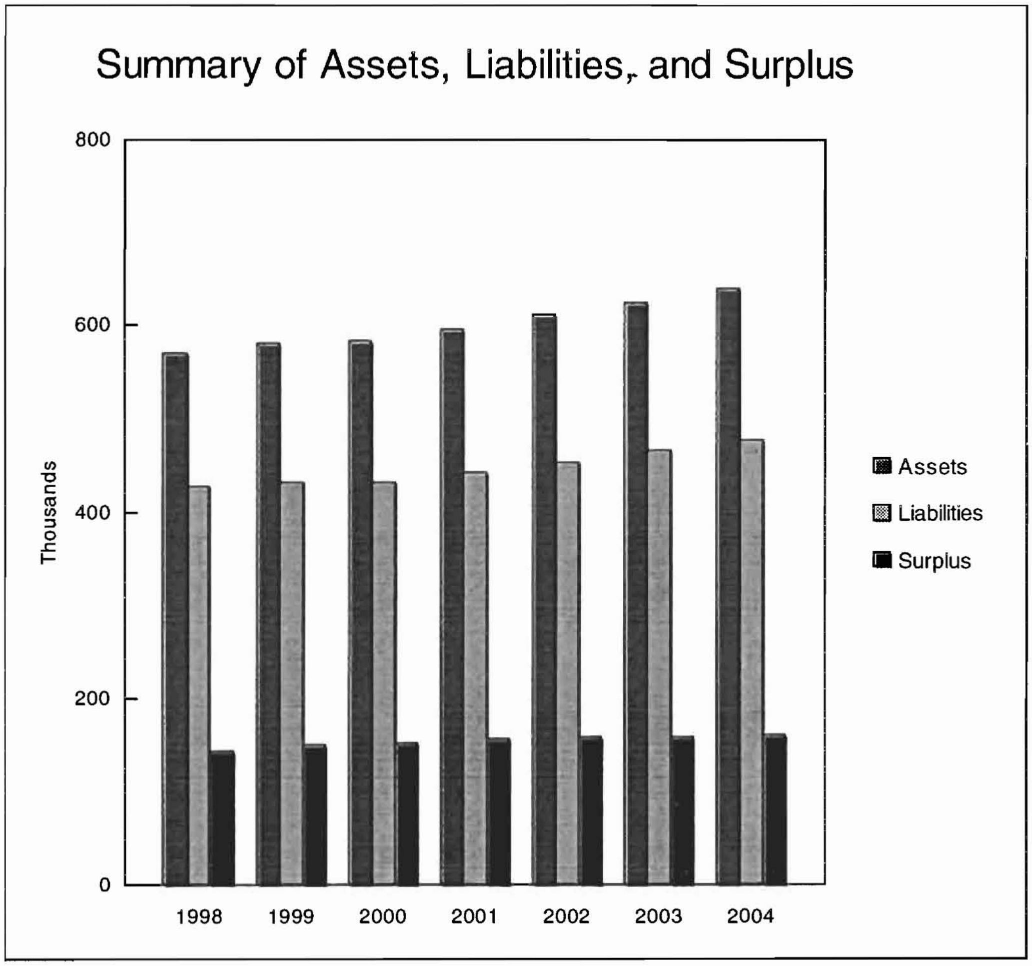
**FY 98 and FY 99 include the $10 million transfer to the State General Fund in each fiscal year in accordance with provisions of 39-71-2320 (2), MCA.*

Premium to Surplus Ratio (X : 1)	0.54	0.46	0.43	0.42	0.43	0.44	0.44
Loss Reserve to Surplus Ratio (X : 1)	2.18	2.04	2.07	2.06	2.09	2.12	2.15
Fiscal year Combined Ratio (Loss + LAE + Underwriting)	88.56%	100.15%	127.83%	125.96%	128.20%	128.57%	128.63%
Operating Transfer Out ($10 mill to GF)	13.09%	14.39%	0.00%	0.00%	0.00%	0.00%	0.00%
Dividend as percent of premium	0.00%	14.39%	14.39%	14.39%	14.39%	14.39%	14.39%

Balance Sheet

Total Assets	$569,659	$582,278	$583,474	$597,277	$611,157	$624,895	$638,809
Unpaid Losses and Loss Adjustment Expenses	$310,687	$304,965	$313,949	$320,493	$328,461	$336,434	$344,549
Other Liabilities	116,725	127,683	117,870	121,581	125,689	130,094	134,155
Total Liabilities	$427,412	$432,648	$431,819	$442,074	$454,150	$466,528	$478,704
Surplus	$142,247	$149,630	$151,655	$155,203	$157,007	$158,367	$160,105
Total Liabilities and Surplus	$569,659	$582,278	$583,474	$597,277	$611,157	$624,895	$638,809

Fiscal years 2000 through 2004 exclude unrealized capital gains. FY 98 includes $15.02 million increase to the market value of invested assets. In FY 99 this adjustment is expected to decrease to $12.2 million resulting in a $2.7 million unrealized loss during FY 99.


Summary of Assets, Liabilities, and Surplus
800
600
400
200
0
Thousands
1998
1999
2000
2001
2002
2003
2004
Assets
Liabilities
Surplus

Critical Strategic Issues

1. Address agency partners' and customers' concern that it is difficult to do business with State Fund. In a competitive environment, other entities have the ability to purchase from or work with another carrier. A critical issue for State Fund is to make it as easy as possible for partners and customers to do business with us.

2. Ensure price competitiveness consistent with a sound financial position. The ability to compete with other carriers on price is dependent on State Fund's ability to maintain operating expenses in line with industry standards. A sound financial position provides the organization with the ability to respond to competitive pricing.

3. Remain competitive by rapidly deploying new information technology. Private sector competitors are adopting new technologies that can result in a significant competitive advantage. To maintain viability in the marketplace, State Fund must catch up and stay current with competitors in the use of information technology.

4. Respond to the high level of competition from private carriers. A critical issue for State Fund is how to retain existing business and recruit new customers to maintain a balanced book of business, competitive rates, and financial stability. The existence of a financially viable State Fund is critical to a healthy and competitive workers' compensation insurance climate in Montana.

5. Anticipate and respond quickly and flexibly to demand for new and additional products and services. Failure to respond to marketplace demands can seriously jeopardize the State Fund's competitive advantage.

6. Continuously improve management capabilities. To be competitive and productive, State Fund must maintain a management system that is performance-based and supported by effective and deliberate communications.

7. Continue our transformation to a high-performance culture based on the recognition that employees are State Fund's most important resource. To effectively address the critical strategic issues described above and successfully achieve our mission, it is imperative that State Fund continues to promote a dynamic business organization. State Fund must anticipate and take advantage of changes in the competitive environment. Central to the State Fund's capacity to do this rests with the ability of its employees to operate in a high-performance fashion. All of our employees must be empowered and have the tools necessary to meet competition head-on.

Core Strategies

Core strategy #1

Enhance State Fund employee involvement and empowerment to reach a higher quality organization responsive to market demands and customer needs.

Core strategy #2

Improve our competitive capabilities and position.

Core strategy #3

Improve our internal business infrastructure and ensure optimal organization structure and performance.

Core strategy #4

Continue to provide superior customer service.

Strategic Objectives

Core Strategy #1

Enhance State Fund employee involvement and empowerment to reach a higher quality organization responsive to market demands and customer needs.

Goal

Develop and implement a learning system and environment that supports strategic thought, entrepreneurial culture, and leadership.

Objectives

- Improve leadership capabilities by establishing and implementing leadership programs and training for management staff by June 2000.
- Implement and monitor 100% of agreed upon recommendations from all Employee Action Committees.
- Support State Fund high-performance culture by continuing to monitor employee opinion through employee opinion survey; achieve an employee opinion rating equal to or above the norm by category or a 10% improvement by October 2000.
- Provide additional training opportunities for State Fund employees which support the organization's strategic direction by June 2000.
- Develop an entrepreneurial model for the State Fund by September 2000 and implement related action plans by June 2001.
- Develop and implement a work/life effectiveness program that provides effective tools and resources to help balance work/life issues and pressures for State Fund employees.

Goal

Develop an awareness of the "internal customer" and associated service and support relationships within State Fund.

Objective

- Define and develop an internal customer awareness program by December 2000.

Core Strategy #2

Improve our competitive capabilities and position.

Goal

Ensure success of insurance agency partnerships.

Objectives

- In FY2000 achieve new earned premium of $2.2 million (net) through appointed agencies, which will contribute to overall profitability and targeted net premium revenue of $65.4 million by FY2000 and a 3% growth rate in written premium by FY2001.

- Identify and improve effectiveness of agency program by maintaining a high degree of responsiveness to agency needs by June 2000.

- Provide for selected insurance agency underwriting authority by October 1999 and determine on-line query capability by June 2000

Goal

Ensure State Fund capitalizes on market opportunities that increase customer retention, reacquire lost business, and identify new product potential.

Objectives

- Achieve improved retention rates for all business segments as follows:
- Direct business retention (premium basis); business with EAP greater than $5,000:
  - FY2000: achieve an 83% retention rate
  - FY2001: a 87% retention rate
- By June 2000, achieve a 83% retention rate on all agency-produced and brokered business.

- Continue application of a comprehensive underwriting marketing initiative for reacquiring lost business, acquiring $2.2 million in new business (as identified in objective 2.1.1), and identifying additional coverage options by June 2000.

- By the end of October, annually assess State Fund's ability to declare a dividend and, if distribution is feasible, determine the estimated dividend amount and subsequent distribution processes.

- By June 2000, develop and implement loss control programs that contribute to 5% improvement in loss experience of targeted account segment and support organizational goals for retention and new business acquisition.

Goal

Improve quality of claims handling and related legal services.

Objective

- Implement specific initiatives to improve claim quality. Achieve a meets-or-exceeds rating on formal file reviews.

Goal

Maximize cost containment strategies.

Objectives

- Develop and implement programs that support high quality and effective cost management strategies by June 2000.

- Create a Pharmacy Preferred Provider Organization by June 30, 2001.

Goal

Effectively manage State Fund's financial position and maintain industry standards and financial ratios.

Objectives

- Maintain a competitive expense ratio not to exceed the average of the top 10 competitive workers' compensation insurers and other regional state funds; and

- Maintain industry financial ratio standards.
  - Risk Based Capital requirements in excess of 2 ½ times the company action level
  - Premium to Surplus ratio not to exceed 2:1
  - Reserve to Surplus ratio not to exceed 3:1

- Measure the readiness and investigate the possibilities of obtaining an AM Best Rating by December 2000.

- Improve and maintain an effective fraud prevention and detection program and maximize recoveries from fraud by achieving total savings of $9.8 million and maintaining at least a 2.5-to-1 return on investment (ROI) in FY2000.

Core Strategy #3

Improve our internal business infrastructure and ensure optimal organization structure and performance.

Goal

Develop and implement a knowledge management strategy to adequately and efficiently ensure business and organizational information is captured and reported.

Objectives

- Develop and implement a data warehouse solution that provides the foundation of the State Fund's Knowledge Strategy needs by June 2000.

- Develop a knowledge management strategy by May 2001.

Goal

Continually evaluate information technology resources and processes to strategically develop, acquire, enhance and integrate new and existing technology systems.

Objectives

- Develop and implement an expanded training plan to enhance the quality of information technology staff development, reduce vendor general support costs, and improve retention by December 1999.

- Optimize internal operating environment by evaluating system performance, providing user training on new State system (MT PRRIME), and enhancing budget tracking capabilities by October 1999.

- Improve Benefits Information System (BIS) by analyzing, testing, and implementing application upgrades and enhancements by June 2000.

- Improve claim-processing efficiency by exploring and implementing information technology changes that use the Benefits Information System for all functions related to the First Reporting process by June 2001.

Goal

Regularly assess the State Fund operating and organizational structure to ensure that resources and work processes are aligned with business strategies.

Objectives

- Begin industry and IT long range plan review designed to aid in the development of the strategic long term planning core strategies.

- By November 1999 (and each succeeding year), begin a strategic and operational planning process designed to ensure optimal organizational structure, adequate resource planning, and progress toward State Fund vision.

- Explore issues for legislation relevant to operations.

- Develop and implement by June 2000 policy and procedure manuals for all key functional areas designed to support the delivery of consistent customer service and operating efficiencies.

Goal

Ensure business continuity in the event of a natural or manmade disaster or systems failure.

Objectives

- Implement an emergency preparedness and recovery plan to ensure business continuity in the event of a natural or manmade disaster by December 1999.

- Ensure State Fund is prepared for roll over of Year 2000 by October 31, 1999.

Core Strategy #4

Continue to provide superior customer service.

Goal

Improve public relations, customer communications, education capabilities, and service delivery tools.

Objectives

- Provide agents, groups, and customers with on-line access and automatic electronic communication capabilities by June 2000 to improve customer communication.

- By July 1999, implement and quarterly monitor a public relations and educational program designed to generally inform the State Fund's business partners and the public about the State Fund.

Goal

Make the State Fund an easier organization with which to conduct business.

Objectives

- Offer more flexible reporting and billing methods and options to policyholders by September 2000.

- Expand pilot program offering electronic premium payment and withdrawal capabilities to all State Fund customers by July 1999 and provide automatic system updates by February 2001.

- Improve customer reporting and process efficiencies by making reporting forms available on State Fund's Website and evaluate other Internet reporting efficiencies by July 2000.

- Evaluate customer perception and develop a plan to improve the premium audit perception by June 2000.

- Evaluate the State Fund's current communication systems to ensure maximum reliability and effectiveness in meeting customers' communication needs.

MONTANA STATE FUND
FISCAL YEAR 2000 ANNUAL BUDGET

The Montana State Fund's management establishes a Strategic Business Plan and Budget annually. The two documents are developed in a parallel process.

The budget provides the necessary funding to enable the State Fund to implement the portions of the business plan that are intended to be achieved in the upcoming fiscal year as well as each department's daily operations. The revenues the State Fund can generate in Montana's competitive workers' compensation insurance market limit the expenses the State Fund can incur.

Over the past year we have been working to:

- Develop new products, such as Other States Coverage;
- Strengthen our relationships with producers;
- Develop operating systems that will enable our service to be the best in Montana's workers' compensation industry; and,
- Working with the legislature to enact workers' compensation legislation that will benefit all Montanans.

In fiscal year 2000 (FY00) the State Fund will aggressively compete to provide Montana businesses the highest quality customer service and the most cost-effective coverage for their workers' compensation insurance needs.

The total budget request for FY00 is $91,535,413. The FY00 budget is separated into three primary categories:

- Benefit or claim expense;
- Loss adjustment expense, which is split into allocated loss adjustment expense (ALAE) and unallocated loss adjustment expense (ULAE); and,
- Underwriting expense.

The total budget request represents an increase as compared to the projected expenditures for the current fiscal year 1999 (FY99) as shown in the following table.

	FY00 Budget Request	**FYE99 Projection**
Benefits of Claim Payments	$68,432,322	$68,903,384
Underwriting Expense	$8,077,816	$8,246,237
Loss Adjustment Expense: Unallocated Loss Expense Allocated Loss Expense	 $12,634,532 $2,390,743	 $9,563,635 $2,635,791
Total Expenditures	**$91,535,413**	**$89,349,047**

For FY00 we are projecting gross premium revenue of $66,507,311. This estimate is based on insuring 23,552 policies in FY00. The following compares the estimated FY00 gross premium to the FY99 projected premium.

Fiscal Year Total Estimated Gross Premium	
FY00 Budget	FYE99 Projection
$66,507,311	**$70,819,187**

Personal Services

The FY00 budget includes staff of 234.75 FTE. This is a decrease of 1.25 FTE from FY99 level of 236.00 FTE. Our total personal services' budget for 234.75 FTE is $9,824,705. This is 48% of our total overhead and unallocated loss expense

The State Fund will begin the fiscal year with 237 positions and four positions will be eliminated prior to January 1, 2000. The State Fund will finish FY00 with 233 positions. This is a decrease from the 237 positions in the FY99 budget. Our staffing levels have been adjusted to meet our business needs in providing underwriting and claim services to our policyholders in FY00. Our staffing changes reflect our need to enhance our claim expense management and information technology support.

The Montana State Fund management is proposing to implement an incentive program for employees exempt from the Fair Labor Standards Act (FLSA). This program will expand the incentive program currently available for executive staff. EBR, a human resources and consulting firm, conducted a review of the compensation programs of other state funds and insurance companies. The review provided information about the compensation practices of Montana employers, private insurance companies and other western region state funds. The review showed the industry regularly uses a compensation program comprised of both base pay and incentive pay components. EBR recommended a similar program for the Montana State Fund. The recommended program has a range for the potential incentive component from 2.5% to 7.5% of an employees base salary. The FY00 budget includes funding for approximately 5% for the incentive component. The Montana State Fund can not be competitive unless a program is in place to attract and retain the highest quality employees to service Montana's employers and employees. The Montana State Fund proposes to implement an incentive program aimed at meeting the goals and objectives of the Montana State Fund, rather than increasing base salaries in order to establish a competitive compensation program.

As included in previous budgets, we have reduced the personal services' budget by a net of $145,686 for estimated vacancy savings less expected overtime and termination payments that will occur in FY00. The personal services' budget does not include adjustments for merit or the management incentive plan for the President. The Board must determine these adjustments. We will adjust the budget for actions taken by the Board for these items.

Information Systems

MT PRRIME will replace the State Budget and Accounting System (SBAS) and the state's Payroll, Personnel, and Position Control system. The Human Resource and Purchasing modules of MT PRRIME have been implemented. The financial modules are scheduled to be operational July 1, 1999. This will impact daily operations in Administration and Finance and Human Resources.

The FY00 budget includes management's proposal for a data warehouse product to assist the State Fund with knowledge management and decision making.

Other Budget Impacts

The assessments collected by the Department of Labor and Industry are reflected as a significant increase in the FY00 budget. This is the combined effect of two pieces of legislation, Senate Bill 117 of the 56th Legislative Session and Senate Bill 375 of the 55th Legislative Session. SB-375 established a residual equity transfer from the Subsequent Injury Fund. This equity was exhausted in FY99. SB-117 changed the basis on which the Administrative and the Vocational Rehabilitation Assessments will be determined. The net effect is an increase of $1,193,826 in the amount budgeted for FY00 over the projected FY99 expenditures for the Administrative Assessment, the Vocational Rehabilitation Assessment, and the Subsequent Injury Fund

Commissions paid to producers will increase in FY00 by $631,195 over the FY99 projected expenditures. A pilot program for producers was initiated in FY98. For FY99 the program was fully implemented. The FY00 budget includes funding for increased commission payments as producers place more business with the State Fund. The State Fund will further develop the incentives provided to agents placing higher volumes and quality of business with the State Fund.

For FY00, management proposes initiating an education-based public relations program. The program includes:

- Agency cooperative educational advertising program;
- Radio-based educational program for six key Montana markets;
- Educational advertising campaign for business and trade publications; and
- Opportunity marketing.

The following pages present a summary of the FY00 budget. The FY00 budget report contains the following:

- Statutory administrative ratio in accordance with section 39-71-2363, MCA;
- Department and division reference list;
- FY00 State Fund budget request summary formatted with actual FY97 and FY98 expenditures, FY99 budget, FY99 projected expenditures, and the FY00 budget request.

Based on an estimated premium level of $70,819,187 for FY 99, the administrative ratio to prior year premium will be 27.95%. Based on this ratio and on legislative changes in Senate Bill 67, we will comply with section 39-71-2363, MCA, limiting our operating expenses to 15% of the prior year's earned annual premium plus up to 50% of the prior year's investment income.

Costs not included in the Proposed Budget

The FY00 budget includes all known and expected costs for the fiscal year. The budget does not include merit and management incentives plan adjustments for the President. These are separate Board actions to be taken in September 1999. After the Board takes action on these items, we will make the authorized adjustments to the approved FY00 budget.

We have not included costs currently unknown to the State Fund. These would include:

- Any additional administrative and claim costs we may incur as a result of pending court decisions. An example would be the Broeker case currently pending final decision.
- Any potential contingency funding related to employers' liability legal defense expenses.

If court decisions result in additional administrative costs and efforts by the State Fund, we will present a request to the Board for additional budget authority for the added costs that we may incur.

Future Budgets

Senate Bill 117 provides changes to the Workers Compensation Regulatory Assessment. Beginning in FY01, the assessment will be treated as a premium surcharge to our customers and not as an operating expense of the State Fund except for the cost of administering the assessment.

The State Fund will continue to provide training to staff, especially in the information technology areas. This is necessary to ensure the State Fund can support newly implemented systems and remain competitive in Montana's workers compensation industry.

Programming enhancements are planned for electronic funds transfer updates, other states coverage, and first reporting online screens. Currently these items are planned for FY01.

STATUTORY ADMINISTRATIVE RATIO
FISCAL YEAR 2000

Section 39-71-2363, MCA, requires the State Fund's executive director to annually submit to the Board, for its approval, an estimated budget of the entire expense of administering the State Fund for the succeeding year. The Administrative expenditures approved by the Board may not exceed 15% of the earned annual premium of the prior fiscal year. Based on an amendment to this statute in 1997, the Board may approve administrative expenditures in excess of 15% of the earned annual premium of the prior fiscal year, but the excess amount approved may not exceed one-half of the investment income earned in the prior fiscal year.

		FY00 Budget
TOTAL FY00 ANNUAL EXPENDITURES		$91,535,413
LESS:		
BENEFITS - NEW FUND		($55,498,554)
BENEFITS - OLD FUND		($12,933,768)
OLD FUND DIRECT CHARGE - DOLI ADMIN & REHAB ASSESSMENTS		($481,529)
ALLOCATED LOSS EXPENSE - NEW FUND		($2,006,988)
ALLOCATED LOSS EXPENSE - OLD FUND		($383,754)
OVERHEAD AND UNALLOCATED LOSS ADJUSTMENT EXPENSE		$20,230,820
ADJUSTMENTS TO STATUTORY ADMINISTRATIVE RATIO		
OLD FUND ADMINISTRATIVE COST		(1,073,765)
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ADJUSTMENTS (excludes amounts to Old Fund)		634,567
ADMINISTRATIVE EXPENDITURES		$19,791,622
PRIOR YEAR (FY99) GROSS EARNED ANNUAL PREMIUM		$70,819,187
STATE FUND ADMINISTRATIVE EXPENDITURE RATIO AS PERCENTAGE OF PRIOR YEARS EARNED ANNUAL PREMIUM	$19,791,622 / $70,819,187 =	27.95%
ADMINISTRATIVE EXPENDITURES		$19,791,622
15% STATUTORY LIMIT	$70,819,187 x 0.15 =	$10,622,878
ADMINISTRATIVE EXPENDITURES OVER 15% LIMIT BY	$19,791,622 - $10,622,878 =	$9,168,744
AMENDMENT		
ESTIMATED STATE FUND FY99 INVESTMENT INCOME (3/31/99)		$30,227,361
ONE-HALF OF FY99 INVESTMENT INCOME		$15,113,681
ADMINISTRATIVE EXPENDITURES OVER 15% LIMIT		$9,168,744
ADMINISTRATIVE EXPENDITURES ARE UNDER	$15,113,681 - $9,168,744 =	$5,944,937

FISCAL YEAR 2000 DEPARTMENT AND DIVISION REFERENCE LIST

Departments or Reporting Centers		Divisions or Responsibility Centers	
100	President's Office - Carl Swanson, President	101	Executive Office
		102	Board of Directors
200	Claim Department - Jim McCluskey, Vice President	201	Claim Division
		202	Fraud Unit
300	Underwriting Department - Laurence Hubbard, Vice President	301	Underwriting Services
		302	Loss Control
		303	Policy Services
		304	Premium Audit
		305	Marketing
		306	Other States Coverage - Operating Expenditures
	Nancy Butler, Vice President	401	Legal Department
500	Administration and Finance Department - Mark Barry, Senior Vice President	501	Administration
		502	Accounting
		503	Budget
		504	Administrative Support
		505	Document Processing Unit
		506	Peg Condon Building
600	Human Resources and Communications - Joanne Shydian, Vice President	601	Human Resources
		602	Customer Relations and Communications
		603	Customer Service Unit
700	Management Information Services (MIS) - Connie Brooks, Vice President	701	Administration
		702	Programming and Systems Analysis
		703	Systems Administration
6035	New Fund	603591 - 00	New Fund All Accident Years
		6035299 - 00	Other States Coverage - Benefit Payments & ALE
6039	Old Fund		

NOTE: The State Fund will begin using the State of Montana's new financial and personnel computer system, MT PRRIME, as of July 1, 1999. Reporting Centers and Responsibility Centers coding and terminology will be replaced. 'Organizations' will become the new terminology. The State Fund will not change internal funtions or structure when we move to MT PRRIME.

TOTAL STATE FUND BUDGET
SUMMARY ROLL-UP
FISCAL YEAR 2000

	EXP. CODE		ACTUAL EXPENDITURES FY 1997		ACTUAL EXPENDITURES FY 1998		BUDGET FY 1999		EXPENDITURE PROJECTION As of 3/31/99		BUDGET FY 2000
PERSONAL SERVICES											
FTE			232.75		236.75		236.00		236.00		234.75
SALARIES	1100	$	6,166,693	$	6,774,381	$	7,303,747	$	7,417,405	$	7,843,054
EMPLOYEE BENEFITS	1400		1,595,473		1,790,376		1,940,279		1,911,767		1,981,651
TOTAL PERSONAL SERVICES	1000	$	7,762,165	$	8,564,757	$	9,244,026	$	9,329,172	$	9,824,705
OPERATING EXPENSES											
OTHER SERVICES	2100	$	2,677,730	$	3,386,924	$	4,855,142	$	4,656,426	$	4,907,432
SUPPLIES & MATERIALS	2200		222,151		370,672		648,207		688,526		429,325
COMMUNICATIONS	2300		495,265		488,879		563,624		487,717		662,147
TRAVEL	2400		103,383		94,603		148,472		129,226		181,968
RENT	2500		75,313		78,384		80,473		87,321		79,640
UTILITIES	2600		60,507		66,682		62,026		72,049		75,652
REPAIRS & MAINTENANCE	2700		264,390		182,120		437,137		385,453		571,795
OTHER EXPENSES	2800		1,583,004		455,164		1,109,805		1,475,172		2,727,379
TOTAL OPERATING EXPENSES	2000	$	5,481,744	$	5,123,427	$	7,904,886	$	7,981,890	$	9,635,339
EQUIPMENT & INTANGIBLE ASSETS											
EQUIPMENT	3100	$	421,826	$	388,118	$	500,506	$	421,878	$	330,642
INTANGIBLE ASSETS	3400		2,761,146		1,553,773		90,837		90,909		921,662
TOTAL EQUIP. & INTANG. ASSETS	3000	$	3,182,972	$	1,941,892	$	591,343	$	512,787	$	1,252,304
BENEFITS & ALE											
BENEFITS TO INDIVIDUALS	7100	$	73,173,299	$	71,044,404	$	71,253,048	$	68,903,384	$	68,432,322
ALLOCATED LOSS EXPENSES (ALE)	7100		1,604,409		2,710,508		2,407,899		2,635,791		2,390,743
TOTAL BENEFITS & ALE	7000	$	74,777,709	$	73,754,912	$	73,660,947	$	71,539,175	$	70,823,065
TOTAL EXPENDITURES		$	91,204,590	$	89,384,988	$	91,401,201	$	89,363,023	$	91,535,413
TOTAL OVERHEAD AND UNALLOCATED EXPENDITURES		$	16,426,882	$	15,630,076	$	17,740,254	$	17,823,849	$	20,712,348

Montana State Fund Board of Directors

Jim Broulette, Chairman

Herb Leuprecht, Vice Chairman

Jack Morgenstern

Tom Horn

Lorretta Lynde

Brian Donahue

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